AR10

Orangeroof Canada Limited

Annual Report 1971

HOWARD JOHNSON'S

Orangeroof Canada Limited

CORPORATE DIRECTORY

Officers:

Harold E. Crate, F.C.A.	Chairman of the Board
Joseph P. Crothers	President
Russell A. Rule	Vice President
John J. Courtemanche	Vice President
Alan W. Alderson	Treasurer
Harold J. Murphy, Q.C.	Secretary

Directors:

John J. Courtemanche
Harold E. Crate, F.C.A.
Frank J. Crothers
George W. Crothers
Joseph P. Crothers
J. Howard Hawke
Walter A. Keyser
Harold J. Murphy, Q.C.
W.J.R. Paton
Russell A. Rule
Douglas G. Sinclair

Solicitors:

Garvey, Ferriss

Auditors:

Thorne, Gunn, Helliwell & Christenson

Transfer Agent and Registrar:

Canada Permanent Trust Company
Vancouver, Calgary, Toronto, Montreal, Halifax

Executive Offices:

797 Don Mills Road, Suite 605, Don Mills, Ontario
Telephone (416) 429-2898

Consultant:

Raymond W. Smith, Vice President,
International Development,
Howard Johnson Company, Boston

The Annual Meeting of Shareholders will be held Wednesday, May 24, 1972 at 10:30 a.m. in Meeting Room A, Howard Johnson's Airport Hotel, 801 Dixon Road, Toronto.

REPORT OF THE CHAIRMAN AND PRESIDENT

To The Shareholders:

On behalf of your Board of Directors, we are pleased to report on the activities and progress of Orangeroof Canada Limited during the fiscal year ended December 31, 1971.

Your company's most valuable, although intangible, asset is the franchise which it holds to develop Howard Johnson Hotels and Restaurants in Canada. The enviable and increasing success of the United States company holds forth the promise for very profitable operations in Canada when sufficient units are brought into existence here to provide operating profits first to overtake and then greatly exceed the necessary development costs, financial charges and overhead which of course must be incurred in the first years of our organization. The first requirement of the Master agreement i.e. to have opened three hotels by December 31, 1971 was duly met by the opening of hotels in Moncton, N.B., Airport in Toronto and London, Ontario. The next objective is expected to be met by our 1972 building programme which includes the building of two hotel-restaurant combinations, one each in St. Catharines, Ontario and in Toronto at Markham Road and Highway 401, as well as one or two franchised hotels with restaurants in the Maritime Provinces which are programmed to be commenced in 1972 and 1973.

It is the company's intention to actively encourage investors who wish to build hotels and/or restaurants and operate them as licensed operators. The company is quite optimistic as to the results of this policy based upon the numerous enquiries already received.

As previously mentioned three hotel-restaurant combinations were opened in 1971. In all three cases the early results are encouraging. Three free standing restaurants were also opened in 1971, namely 3757 Keele Street, Yonge Street at St. Clair Avenue and Yonge Street at Dundas Street all in Toronto. Early returns show a most satisfactory volume of business. Evidence of the success of the Howard Johnson concept in Montreal is the opening by our original licensed operator of his second restaurant on St. Catherines Street in the spring of 1972.

The company plans to aggressively increase its retail distribution of ice cream with a consumer advertising programme and, at the same time, plans to test one or two ice cream stores as part of its long range ice cream merchandising programme.

One of the major accomplishments of 1971 was the development of an operating organization designed to establish and maintain the high standards of Howard Johnson's and to ensure the complete satisfaction of our thousands of customers and the maximization of our future profits.

The financial position of the company at December 31, 1971 and the results of operations for the year then ended are shown on the appended financial statements together with the report of the company's auditors thereon. The accompanying notes offer comprehensive explanations of various items in the Balance Sheet and income statements.

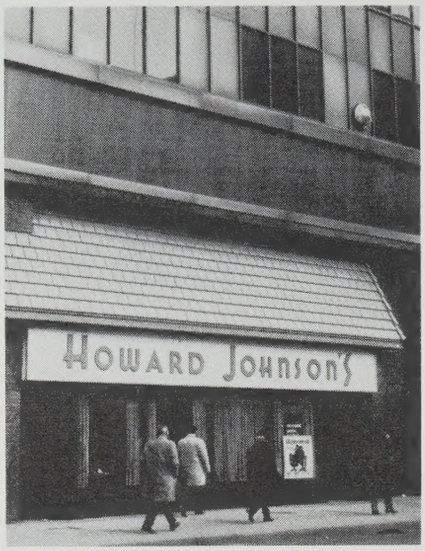
May we express our thanks to our administrative and technical staff, to all of our field and office employees and to our Shareholders, licensed operators and customers for their continuing loyalty and enthusiasm.

Respectfully submitted on behalf of the Board.

Harold E. Crate
Chairman

Joseph P. Crothers
President

Toronto, Ontario
April 25, 1972



Howard Johnson's Restaurant, Yonge & Dundas, Toronto

Recreational weekend activities at Howard Johnson's Airport Hotel, Toronto

Banquet facilities, Howard Johnson's Airport Hotel, Toronto

Cockney Pride Pub, Howard Johnson's Airport Hotel, Toronto

Fried clams are a specialty of Howard Johnson's Restaurants

HOWARD JOHNSON'S RESTAURANTS

With eight Howard Johnson's Restaurants now in operation in Ontario, Quebec and New Brunswick, the impact of family-style food served in the famous Howard Johnson's manner has been favourably received both by the surrounding market areas and by commercial and vacationing travellers who recognize the name that is renowned throughout North America for friendly service, good food and reasonable prices.

Howard Johnson's Restaurants are located at:

City	Address	Seating Capacity
Montreal	710 St. Catherine Street West	160
	1230 St. Catherine Street West	240
Moncton	Route 126 & Trans-Canada Highway	140
Toronto	3657 Keele Street	140
	1507 Yonge Street	250
	291 Yonge Street	150
	801 Dixon Road	140
London	1150 Wellington Road	140

Exciting promotional activities have attracted large segments of the public, many of whom have become "regulars" for our weekday specials of fried clams, fish and chicken on an "all you can eat" basis. Particular interest and attention are paid to children who always enjoy the friendly welcome from our hostesses and waitresses, the special children's menu, the famous 28 flavours of Howard Johnson's ice cream, and the lolly pops and other little gifts offered as they leave.

HOWARD JOHNSON'S HOTELS AND MOTOR LODGES

Three accommodation facilities were successfully opened in 1971 as follows:

Moncton Motor Lodge – 96 guest rooms, convention and banquet facilities, enclosed swimming pool, sauna, cocktail lounge and Howard Johnson's Restaurant. Opened June 1971. Licensed operator John Ritcey.

Toronto Airport Hotel – 275 guest rooms, convention and banquet facilities, enclosed swimming pool, saunas, Red Coach Grill and Lounge, Cockney Pride Pub, and Howard Johnson's Restaurant. Opened July 1971. Company operated.

London Motor Lodge – 120 guest rooms, convention and banquet facilities, heated pool, saunas, cocktail lounge, Cockney Pride Pub, and Howard Johnson's Restaurant. Opened November 1971. Company operated.

New locations scheduled for construction starts in 1972 are at Markham Road and Highway 401 in suburban east Toronto, and in St. Catharines at Lake Street and Queen Elizabeth Highway. An expansion program is also contemplated in the Maritimes by the licensed operator of the Moncton Motor Lodge.

Active sales and promotional programs are resulting in increased occupancy and in the use of the hotels' banqueting facilities. The hotel and motor lodges have been particularly successful in selling weekend "packages" which include such recreational pastimes as snowmobiling, golfing, racing and other sporting activities. The public rooms – pubs, lounges and dining rooms – have also enjoyed increased patronage through regular promotional evenings. These, and other special features will be aggressively continued in the months to come.

Our most important asset, the name, "Howard Johnson's", successfully attracts the public to whom the name stands for wholesome food, friendly service, cleanliness, convenient and comfortable accommodation and family-oriented service and facilities – all at reasonable prices.

ICE CREAM

Production of Howard Johnson's ice cream in Canada has increased substantially with the opening of new retail and food service outlets. The famous 28 flavours are available in all Howard Johnson's Restaurants and selected supermarkets.

To facilitate quick and efficient distribution of ice cream from the point of manufacture (in Welland, Ontario and Granby, Quebec), the Company has acquired refrigerated, mobile equipment with sufficient capacity to insure frequent deliveries of ice cream in peak condition.

It is anticipated that ice cream sales will increase in Canada as our restaurant operations continue to expand and as wider distribution is established throughout retail outlets in response to increasing consumer acceptance and demand. Our modern manufacturing facilities are well-equipped to accommodate this expected increased production.

MANAGEMENT APPOINTMENTS

The following appointments were announced recently:

Russell A. Rule, Vice President of Orangeroof has been named to the Board of Directors, as has Douglas G. Sinclair, Vice President and General Manager, Operations, of The Glengair Group Limited.

Jack Courtemanche has been elected a director and appointed Vice President, Operations. He is responsible for the operations, development and growth of the Company. Prior to joining Orangeroof, he was Vice President and General Manager for Canada of a large, multi-national food manufacturing and distributing corporation.

Ray Domenico has joined Orangeroof as Director of Hotel Operations, to which position he brings a strong background of senior management responsibility with major Canadian and International hotel chains.

John Hanson has been appointed Area Manager, Howard Johnson's Restaurants, having joined Orangeroof from Howard Johnson's New England division where he has had extensive experience in restaurant management and supervision.

Other new appointments include Robert Mead, Food Supervisor, Howard Johnson's Restaurants, Mrs. Adele Young, Service Supervisor, Howard Johnson's Restaurants, and Peter Richardson, Purchasing Agent for Orangeroof.

Orangeroof Canada Limited

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970)

	1971	1970
Revenue		
Sales	$1,885,463	$ 22,940
Interest	66,979	192,890
Royalties and licence fees	70,987	79,799
	2,023,429	295,629
Costs and expenses before the undernoted	2,197,318	438,121
Amortization of deferred expenses	47,402	
Amortization of licences	26,400	19,800
Royalties paid	104,818	50,000
Depreciation	157,461	10,677
Interest on long-term liabilities (less capitalized 1971, $316,002; 1970, nil)	59,120	520
	2,592,519	519,118
Loss for the year	$ 569,090	$223,489
Loss per class A and B common shares	26c	11c

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970)

	1971	1970
Deficit at beginning of year		
As previously reported	$ 728,719	$334,546
Deduct capitalization of costs previously expensed (note 9)	122,238	
As restated	606,481	334,546
Loss for the year	569,090	223,489
Expenses on issue of 400,000 Class B common shares		40,871
Incorporation expenses		7,575
Deficit at end of year	$1,175,571	$606,481

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CONSOLIDATED BALANC

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ASSETS	1971	1970
CURRENT ASSETS		
Cash and bank deposit receipts	$1,313,352	$4,090,200
Accounts receivable	231,968	45,323
Receivable from sale of fixed assets (note 11)	437,166	
Inventories, at the lower of cost and net realizable value	115,969	24,763
Deposits and prepaid expenses	44,422	46,226
	2,142,877	4,206,512
FIXED ASSETS (note 2)		
Land, buildings, equipment and leasehold improvements, at cost	10,764,577	55,920
Less accumulated depreciation	172,664	15,204
	10,591,913	40,716
BUILDINGS UNDER CONSTRUCTION, at cost		1,858,859
LAND, CARRYING AND OTHER CHARGES APPLICABLE TO FUTURE DEVELOPMENT SITES, at cost (note 3)	706,286	953,494
OTHER ASSETS, at cost less amortization		
Licences (note 4)	478,000	504,400
Deferred expenses (note 5)	673,207	86,553
	1,151,207	590,953
	$14,592,283	$7,650,534

Approved by the Board

H.E. Crate, Director
J.P. Crothers, Director

AUDIT

To the Shareholders of
ORANGEROOF CANADA LIMITED

We have examined the consolidated balance sheet of Orangeroof Canada Limited and subsidiary companies as at December 31, 1971 and the consolidated statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada
March 10, 1972

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ET – DECEMBER 31, 1971

December 31, 1970)

LIABILITIES	1971	1970
CURRENT LIABILITIES		
Bank loan, secured by real estate	$ 250,000	
Accounts payable and accrued liabilities	1,069,861	$ 973,798
Holdbacks payable on construction contracts	337,203	215,826
Principal due within one year on long-term liabilities	178,054	75,000
	1,835,118	1,264,624
LONG–TERM LIABILITIES (note 6)	9,362,736	2,422,391
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 7)		
Authorized		
1,400,000 Class A common shares without par value		
3,500,000 Class B common shares without par value		
Issued		
1,400,000 Class A common shares 800,000 Class B common shares	4,570,000	4,570,000
DEFICIT	1,175,571	606,481
	3,394,429	3,963,519
	$14,592,283	$7,650,534

Long-term leases (note 8)
Subsequent event (note 11)

EPORT

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, after giving retroactive effect to the changes in accounting practice, with which we concur, outlined in note 9 to the consolidated finanacial statements have been applied on a basis consistent with that of the preceding year.

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

Orangeroof Canada Limited

and subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970)

	1971	1970
Source of funds		
Issue of long-term liabilities	$7,130,000	$2,497,391
Sale of land	70,000	
Issue of shares		2,000,000
	7,200,000	4,497,391
Application of funds		
Loss for the year	569,090	223,489
Items not involving current funds		
Depreciation	(157,461)	(10,677)
Amortization of deferred expenses	(47,402)	
Amortization of licences	(26,400)	(19,800)
	337,827	193,012
Additions to fixed assets less in 1971, $437,166 included in current assets (note 11)	8,553,345	35,321
Buildings under construction		1,848,857
Land, carrying and other charges applicable to future development sites	119,246	699,669
Ice cream licence fee		257,500
Deferred expenses	634,056	86,553
Expenses on issue of class B common shares		40,871
Decrease in non-current portion of long-term liabilities	189,655	75,000
	9,834,129	3,236,783
Increase (decrease) in working capital	(2,634,129)	1,260,608
Working capital at beginning of year	2,941,888	1,681,280
Working capital at end of year	$ 307,759	$2,941,888

Orangeroof Canada Limited

and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1971

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the wholly-owned subsidiary companies, Orange Roof Enterprises Limited and O.R. Restaurants Limited. The latter company was incorporated on May 28, 1971.

2. FIXED ASSETS

	1971			1970
	Cost	Accumulated depreciation	Net	Net
Land	$ 181,813		$ 181,813	
Buildings	8,140,564	$ 65,113	8,075,451	
Furniture and equipment	1,655,191	77,393	1,577,798	$ 28,196
Leasehold improvements	628,203	30,158	598,045	12,520
Cutlery, china, linens, etc.	158,806		158,806	
	$10,764,577	$172,664	$10,591,913	$ 40,716

For accounting purposes, depreciation is computed on a straight line basis as follows:

Buildings	2½%
Furniture and equipment	10%
Leasehold improvements	Over the term of the lease
Cutlery, china, linens, etc.	The company capitalizes a base stock at each location and expenses subsequent replacements.

3. LAND, CARRYING AND OTHER CHARGES APPLICABLE TO FUTURE DEVELOPMENT SITES:

Included herein is land at cost in 1971 of $604,186 and 1970 of $779,456.

4. LICENCES

	1971	1970
Master Licence	$240,300	$253,500
Ice Cream Licence	237,700	250,900
	$478,000	$504,400

Under the Master Licence the company has the exclusive right to operate and license others to operate Howard Johnson's lodges, restaurants and Red Coach Grills in Canada. The Ice Cream Licence grants the company the exclusive right to manufacture and sell Howard Johnson's ice cream in Canada.

The licences expire on December 31, 1989, but provide for two additional ten year renewal periods on payment of stipulated renewal fees. Both licences provide for percentage royalties with the Master Licence having a minimum royalty of $75,000 in each of the remaining years of the initial term. The company is obligated to ensure that no less than 40 Howard Johnson's combination restaurants and motor lodges are operating by December 31, 1989, and that 10 are operating by December 31, 1973.

The cost of both licences is being amortized over the period ending December 31, 1989.

5. DEFERRED EXPENSES

	1971			1970
	Expenses	Amortization	Net	Net
Deferred opening expenses	$505,346	$37,550	$467,796	
Deferred borrowing expenses	215,263	9,852	205,411	$86,553
	$720,609	$47,402	$673,207	$86,553

It is the company's practice to defer opening expenses and borrowing expenses. The opening expenses are to be amortized over the first sixty months commencing with the month following the opening of each lodge or restaurant. The borrowing expenses are to be amortized over the term of the respective borrowing.

6. LONG–TERM LIABILITIES

Orangeroof Canada Limited	
9½% Convertible sinking fund debentures Series A, maturing 1985	$3,000,000
7% First mortgage, maturing 1979	139,436
9% Second mortgage, maturing 1972	65,354
10½% Second mortgage, maturing 1974	1,500,000
Term bank loans repayable 1974, interest 2½% over prime	4,000,000
Due to Howard Johnson Company, payable $51,500 annually 1972 to 1975	206,000
O.R. Restaurants Limited	
10¾% First mortgage bonds, Series A, maturing 1981	220,000
11 % First mortgage bonds, Series B, maturing 1981	410,000
	9,540,790
Less principal included in current liabilities	178,054
	$9,362,736

The 9½% convertible sinking fund debentures series A, which are secured by a first floating charge on all the undertakings of the company, call for annual sinking fund instalments of $300,000 to commence in 1976, and can be redeemed otherwise than out of sinking fund monies at decreasing premiums commencing in 1977. The debentures are convertible into class B common shares of the company at $6.00 per share prior to 1981 and thereafter at $7.50 per share to maturity (see note 7).

Under the terms of the Trust Indenture securing the series A debentures, the company has agreed not to pay dividends on its common shares if the retained earnings are less than $1,000,000 or if more than 50% of the series A debentures are outstanding.

7. CAPITAL STOCK

(a) The Class A shares are entitled to 10 votes per share; the Class B shares are entitled to 1 vote per share.

(b) Class A shares may be converted into Class B shares at any time on the basis of one Class B share for each Class A share. 1,400,000 Class B shares are reserved for issuance upon the conversion of Class A shares. If 90% of the Class A shares are converted into Class B shares, then at the company's option all the remaining Class A shares may, at any time and from time to time, be converted into Class B shares.

(c) In all other respects, the Class A and Class B shares have equal rights.

500,000 Class B common shares have been reserved for issuance upon conversion of the $3,000,000 Series A debenture.

8. LONG–TERM LEASES

The company has entered into long-term leases on land and buildings for periods varying from nine to thirty-nine years. From the balance sheet date these leases provide for minimum annual rentals of approximately $310,000 and aggregate minimum rentals over the remaining terms of the leases of approximately $5,400,000.

The leases contain options to renew.

9. CHANGES IN ACCOUNTING PRACTICE

During 1971 the company changed its accounting policies to give effect to:

(a) The capitalization of rent and property taxes on leased and company-owned land held for future development.

(b) The capitalization of certain costs related to the company's construction division as part of the cost of lodges and restaurants under construction.

To give effect to the above changes, the 1970 financial statements have been restated to capitalize $122,238 of the above described costs for 1970 and reduce the loss for the year ended December 31, 1970 by a similar amount. No restatement was made prior to 1970 because the change would be insignificant.

10. OTHER STATUTORY INFORMATION

Remuneration of directors and officers was as follows:	1971	1970
Directors	$ 19,050	$28,650
Officers	106,271	81,739

There are 13 directors (1970, 11 directors) and 5 officers (1970, 5 officers). During 1971, 3 officers (1970, 2 officers) were also directors.

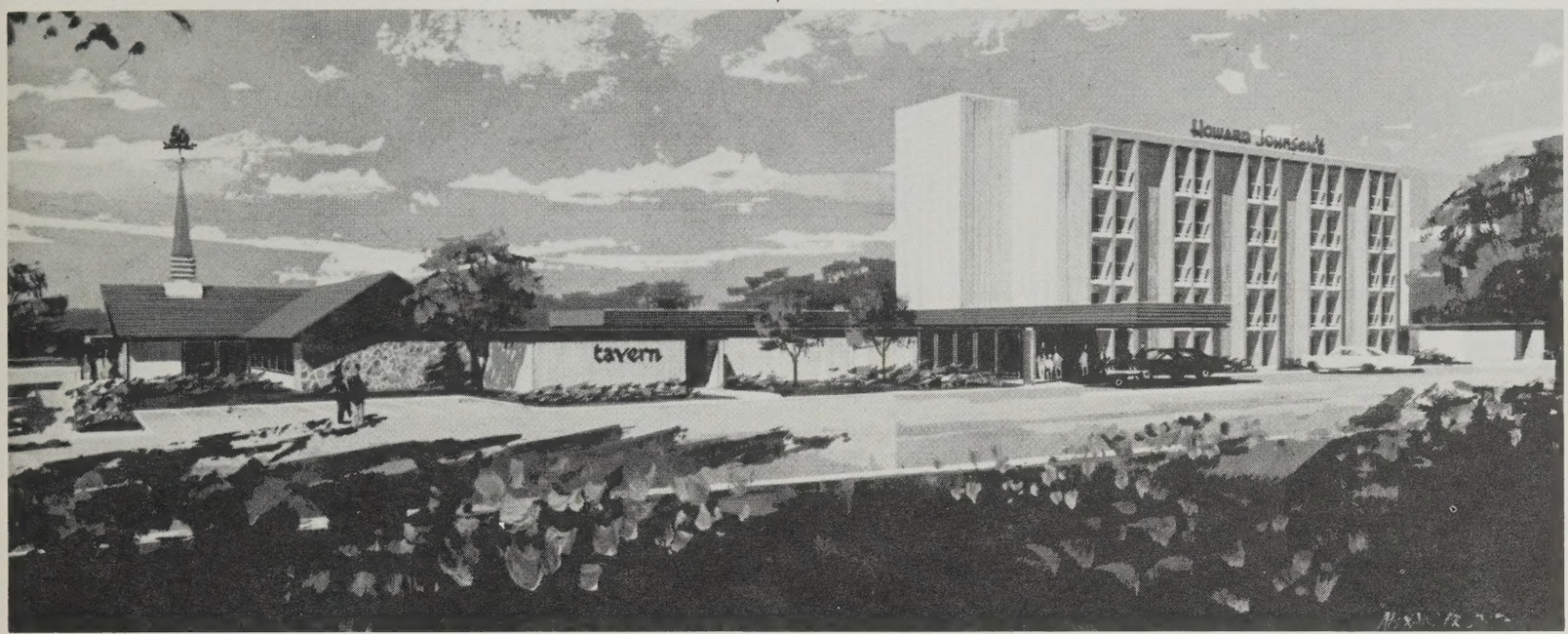
11. SUBSEQUENT EVENT

Subsequent to December 31, 1971 the company entered into an agreement to sell at cost and lease back certain furniture and equipment. The $437,166 cost of these assets has been included in current assets as "Receivable from sale of fixed assets".

12. COMPARATIVE FIGURES

The 1970 figures have been reclassified on the basis of the 1971 financial statement presentation.

PROPOSED HOWARD JOHNSON'S MOTOR LODGE AND RESTAURANT, EAST TORONTO



HOWARD JOHNSON'S

Orangeroof Canada Limited, a completely Canadian owned and operated Company, has the exclusive right to develop Howard Johnson's in Canada. This includes Howard Johnson's motor lodge and restaurant combinations and free standing restaurants, either for operation by the Company or through the franchising of licensed operators.

Orangeroof also has the right to distribute any Howard Johnson's products which may be manufactured in Canada, and exclusive right to manufacture and sell Howard Johnson's Ice Cream in Canada, which right the Company has exercised.

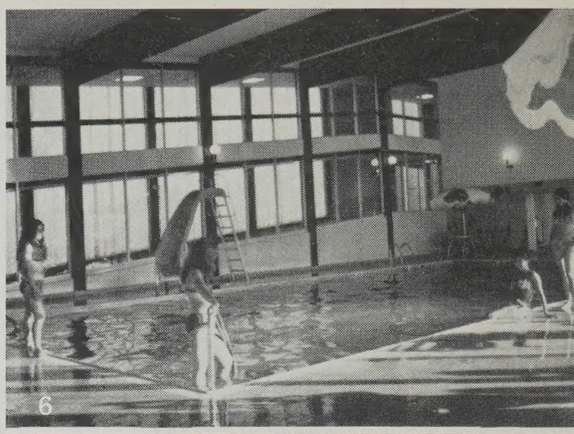
In accordance with the master agreement, Orangeroof plans a further seven motor lodge/restaurant combinations by December 31, 1973. Orangeroof has also agreed to have a total of 40 motor lodge/restaurant combinations in operation in Canada by December 31, 1989. Provision is made for delays that are beyond the Company's control. The number of free standing restaurants to be developed is at the discretion of Orangeroof.

Orangeroof has now initiated an aggressive programme to secure licensed operators for both motor lodge/restaurant combinations and restaurants. In doing so, it is Orangeroof's intention to give serious consideration to potential qualified licensees without reserving any area for Company operations unless it is slated for immediate development.

Howard Johnson's has been renowned throughout North America for over 45 years and is now made up of 871 Howard Johnson's Restaurants, 29 Red Coach Grills, 10 Ground Round restaurants and 438 Howard Johnson's Motor Lodges.

PROPOSED HOWARD JOHNSON'S MOTOR LODGE AND RESTAURANT, ST. CATHARINES , ONTARIO

1. Howard Johnson's Airport Hotel, Toronto, Ontario
2. Howard Johnson's Restaurant, Moncton, New Brunswick
3. Howard D. Johnson and Howard B. Johnson open Toronto hotel
4. Howard Johnson's ice cream
5. Howard Johnson's restaurant, Yonge & St. Clair, Toronto, Ontario
6. Enclosed swimming pool, Howard Johnson's Motor Lodge, Moncton, New Brunswick
7. Red Coach Grill, Toronto, Ontario
8. Howard Johnson's ice cream delivery facilities
9. Opening of Howard Johnson's, Moncton. (Premier Richard Hatfield, John F. Ritcey, Mayor Leonard Jones, Minister of Tourism J.C. Van Horne)
10. Howard Johnson's Motor Lodge, London, Ontario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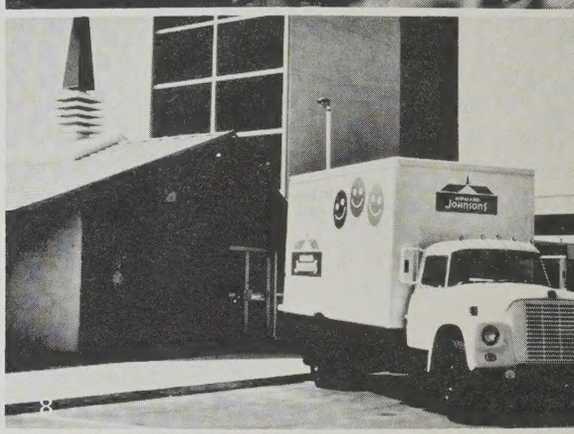

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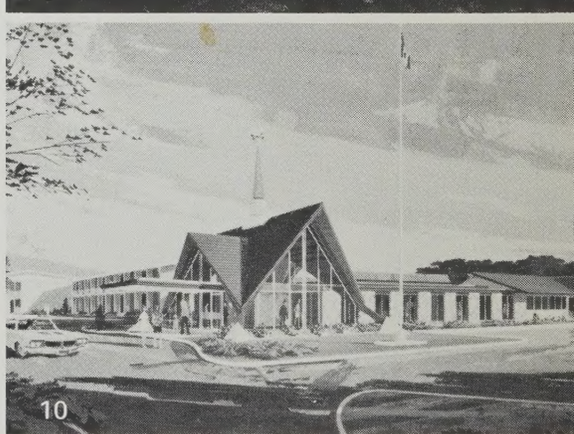
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